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SUBJECT: Namibians Skeptical That Zimbabwe Will Cut Off Power

CLASSIFIED BY: Dennise Mathieu, Ambassador; REASON: 1.4(B)

¶1. (SBU) Summary: Despite recent news reports that Zimbabwe's Energy Minister had ordered his country's utility ZESA to stop exports of electricity to Namibia except from Hwange, ZESA continues "business as usual" in providing Namibia power. Namibia's national power utility NamPower and ZESA signed agreements in February 2007 in which NamPower agreed to lend USD \$40 million to ZESA to refurbish its Hwange power plant. In exchange, ZESA promised to pay back the loan by supplying 150MW of power for five years. Since the initial news reports, Zimbabwean officials have distanced themselves from the Energy Minister's statements. High level NamPower officials have told embassies they are very skeptical that ZESA will renege on the deal, a commercial arrangement that helped bail out ZESA when it had no access to hard currency. Our understanding of the NamPower ZESA arrangement is that ZESA could not simply choose to stop or restrict power exports without violating the 2007 contract. End Summary.

¶2. (U) In February 2007, Namibia's state-owned power utility NamPower and ZESA entered into a power purchase agreement to provide Namibia with 150 MW of power. In addition, NamPower agreed to loan ZESA USD \$40 million to help refurbish ZESA's Hwange coal-fired plant. In exchange, ZESA promised to repay the loan by supplying NamPower with 150MW per year for five years.

¶3. (U) On January 13, Namibian newspapers, including the state-owned New Era newspaper, reported that Zimbabwean Energy Minister Elias Mudzuri had ordered the power utility Zimbabwe Electricity Supply Authority (ZESA) to stop exporting power to Namibia due to power shortages within Zimbabwe. According to the news reports, the Hwange plant has been producing well below its 480MW capacity in recent months. Mudzuri reportedly stated he ordered the halt of electricity exports because ZESA had been forced to import power and then re-export it to Namibia to meet its contractual obligations. In a telephone interview with The Namibian, Energy Minister Mudzuri allegedly explained that he had ordered ZESA only supply power from Hwange.

¶4. (U) Early on January 13, NamPower spokesperson John Kaimu told the Namibian Broadcasting Company (NBC) that his company had not received any official communication from ZESA on the matter. Later he told the Namibian newspaper that the power purchase agreement (PPA) was between ZESA and NamPower and not between Hwange and NamPower. By midday on January 13, Zimbabwean authorities seemed to be distancing themselves from Mudzuri's comments. Zimbabwe's Ambassador to Namibia Chipso Zindoga told the Namibian media that ZESA "always supplied Namibia even when Hwange was facing operational challenges. "

¶5. (C) On July 14, Ambassador Mathieu met with NamPower Managing Director (CEO) Paulinus Shilamba and General Manager for Power

Generation Kahenge Simson Haulofu, with econoff in attendance. Shilamba explained that the NamPower -ZESA deal consisted of two separate commercial agreements, the USD \$40 million loan and a separate power purchase power agreement. The PPA, he explained, committed ZESA (and not the Hwange plant exclusively) to supply 150 MW of power for five years. Shilamba emphasized that ZESA choosing not to supply power would be a violation of the contract.

¶16. (C) The CEO expressed skepticism that ZESA would renege on the agreement. He speculated that GOZ officials would not easily forget that in 2007, when the deal was struck, Zimbabwe and ZESA could not get access to foreign currency and NamPower was the only organization that came to ZESA's aid. Haulofu stressed that he did not believe ZESA would "dishonor" the agreement and that the Zimbabwean cabinet would not let one minister (Mudzuri) abrogate an international agreement.

¶17. (C) In a follow-up meeting with econoff, Shilamba and Haulofu elaborated on the NamPower -ZESA arrangement. The two explained that the USD \$40 million loan had been put into a Botswana bank to prevent Zimbabwean officials from diverting the funds. They explained that the USD \$40 million had been almost fully disbursed (with the remaining monies already committed). The agreement established that all disbursements were paid directly to the contractors refurbishing the Hwange plant and not to ZESA.

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NamPower had the right to review the progress on the refurbishment of the plant. According to Haulofu, three of four generation units at Hwange have been refurbished; the fourth is awaiting on long-lead parts in order to complete refurbishment. The problems at Hwange, Haulofu stressed, are due to coal shortages and not because the plant was not refurbished. Shilamba added that even if there were problems at Hwange, ZESA still has an obligation to deliver power.

¶18. (C) Haulofu speculated that Energy Minister Elias Mudzuri's comments that power for Namibia should only come from Hwange may have stemmed from ZESA's recent Bulawayo deal. Under that deal, according to news sources, Botswana Power Company (BPC) loaned USD \$8 million to help refurbish and provide coal to a power plant in Zimbabwe's second city of Bulawayo. In exchange, BPC will get 40 MW of power from the Bulawayo plant exclusively. Haulofu noted Mudzuri probably wanted to make the Namibian deal (which was negotiated prior to Mudzuri's tenure) similar to the Bulawayo deal.

¶19. (C) Comment: NamPower generates less than half the power that Namibia demands for domestic consumption. ZESA's supply of 150 MW represents approximately a third of Namibia's energy consumption. While NamPower has other PPAs in place, Namibia would face serious challenges and potential power outages if ZESA cut its exports abruptly. At a minimum, energy costs for NamPower would increase substantially. Shilamba acknowledged that Mudzuri's statements had created panic amongst some of NamPower's larger customers. He added that he and his management team have had to reassure many of NamPower's clients that they are not facing imminent power shortages/outages. Shilamba and Haulofu appeared genuinely confident that ZESA would not violate the terms of the 2007 agreements. More recent public statements by Zimbabwean officials both in Harare and Windhoek seem to support their position. End Comment  
MATHIEU